

EU sugar regime reform: some wider implications

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Contents

- Options for EU sugar regime reform
- Call for maintenance of value of preferences
- WTO Panel: C sugar and ACP re-exports
- WTO: Liberalisation v preferences
- Exchange rates: need for Safeguard Clause
- Export refunds: reduction won't help the world market
- Many supports are not covered by the WTO

Options for Sugar Regime reform

3 or is it 4 options?

- The European Commission put forward 3 families of options for sugar regime reform to apply from 1 July 2006. These were:
 - Extension of the regime (Option 1)
 - Price cuts (Option 2)
 - Liberalisation (Option 3)
- Option 4 – Quotatisation – was not put forward, although discussed in the background Impact Assessment study.

Options I and III

- The Commission says Option 1 is not tenable because sugar is not in CAP Reform, competition concerns and the open-ended access granted for EBA/Balkans and WTO
- But regime change means 'solidarity' v. efficiency, as the current regime keeps production in virtually all EU countries
- Option 3 not acceptable as it means that the EU would depend for a large part of its sugar on a single source – Brazil – with the issues this raises in terms of supply and political risks

Option II

- The Commission presented its options in such a way as to make it apparent that, in its view, only Option II (price cuts) is feasible.
- The Commission suggested that cutting prices sufficiently would allow the scrapping of the regime (especially quotas and support prices).
- A price of €450/t would form an 'equilibrium' that would control both domestic production and preferential imports and so balance the market.

Implications

- The implications of the options are sweeping (Tables 1 and 2).
- In summary:

	Countries EU 25		Factories EU 15	Jobs lost EU 15
	Stopping	Reducing	135 (2000)	
Status Quo	3	7	(-78)	-78,000
Fixed quotas	3	7	(-78)	-78,000
Price fall	15	7	(-81)	-83,000
Liberalisation	17	4	(-98)	-94,500

Source: European Commission, Impact Assessment, pp. 27, 29 and 30.

- Reuters (7/2/04) report Fischler as saying the Commission now does not believe there would be domestic production under liberalisation

Table 1: Main results of the options for EU"25", in 2010-15 (quantities in million tonnes)

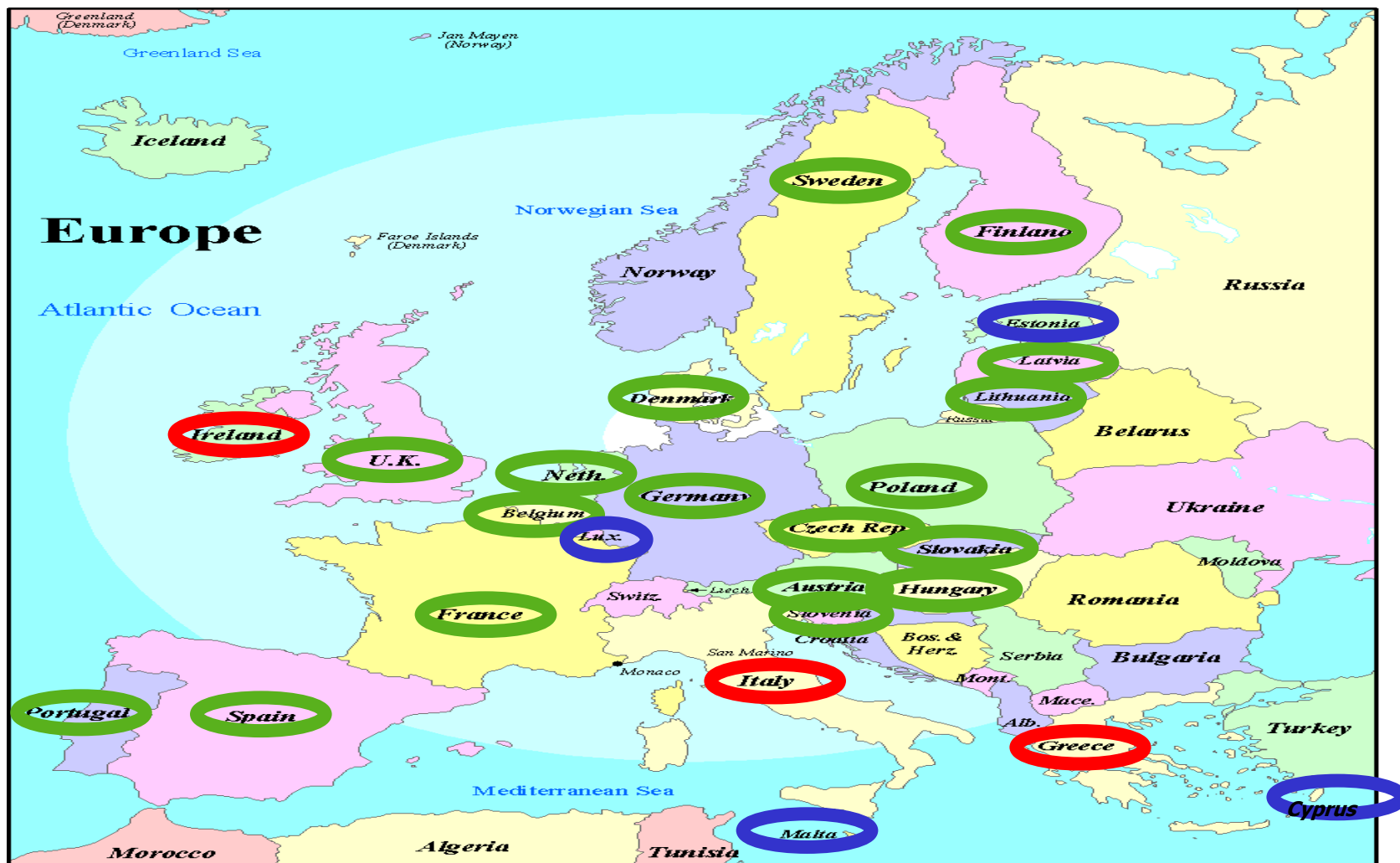
	Today	Status quo	Fixed quotas	Fall in prices		Liberalisation
				Midway	Long term	
				2010-15	2010-15	
Production: -Quota	17.5	13.5	14.0	15.5	0.0	0.0
- Total	20.0	16.0	16.0	17.5	14.0	6.0
Imports	1.9	4.0	3.5	2.0	2.5	10.0
Exports: - with refund	2.8	1.5	1.5	1.5	0.0	0.0
- Total	5.3	4.0	3.5	3.5	0.5	0.0
White sugar price €/t	725	600	600	600	450	350
Cut in import duty %	0%	<-36%	<-36%	<-36%	<-60%	--
Sugar beet price - for Quota sugar€/t	48	40	40	40	25	--
- for “C” sugar €/t	17	20	20	20	25	21
Direct aid for growers	None	None	None	None	Yes	Yes
Fall in ACP receipts € Mill		150	150	150	300	350
Net sugar spending € Mill	1000-1200	600-800	600-800	600-800	800-1000	1150-1350
Countries ceasing production and/or (with sharp drop in production)		Gre, Ire, It, (Sp, Fin, Port, Lat, Lith, Slk, Svn)	Gre, Ire, It, (Sp, Fin, Port, Lith, Lat, Slk, Svn)	Gre, Ire, It	Gre, Ire, It, (Sp, Fin, Port, Lith, Lat, Slk, Svn)	All except perhaps Aus, Ger, Fr, Pol, UK
Source: European Commission impact assessment, Table 1, p. 26. Countries in brackets are those substantially reducing production						

Table 2: Which countries cease production and/or exports as EU market prices for white sugar fall?

EU market Price €/t	EU Member States ceasing production	EU market Price €/t	LDC's likely to cease exports	EU market price €/t	Other partners ceasing exports
725-625	Greece, Ireland, Italy	725-650	Bangladesh, Congo (DR), Jamaica, Madagascar		
625-525	Spain, Finland, Latvia, Lithuania, Portugal, Slovakia, Slovenia	650-550	Burkina Faso Tanzania	650-550	Cote d'Ivoire Mauritius
525-475	Belgium, Czech Denmark Hungary Netherlands			550-475	Cuba Congo (Braz) Guyana
475-425	Austria Germany Poland Sweden UK	475-400	Malawi Senegal Swaziland	475-400	Balkans Belize India Fiji
425-400	France	400-250	Ethiopia, Mozambique, Sudan, Zambia Zimbabwe	400-250	Brazil

Source: European Commission, Impact assessment, p. 27.

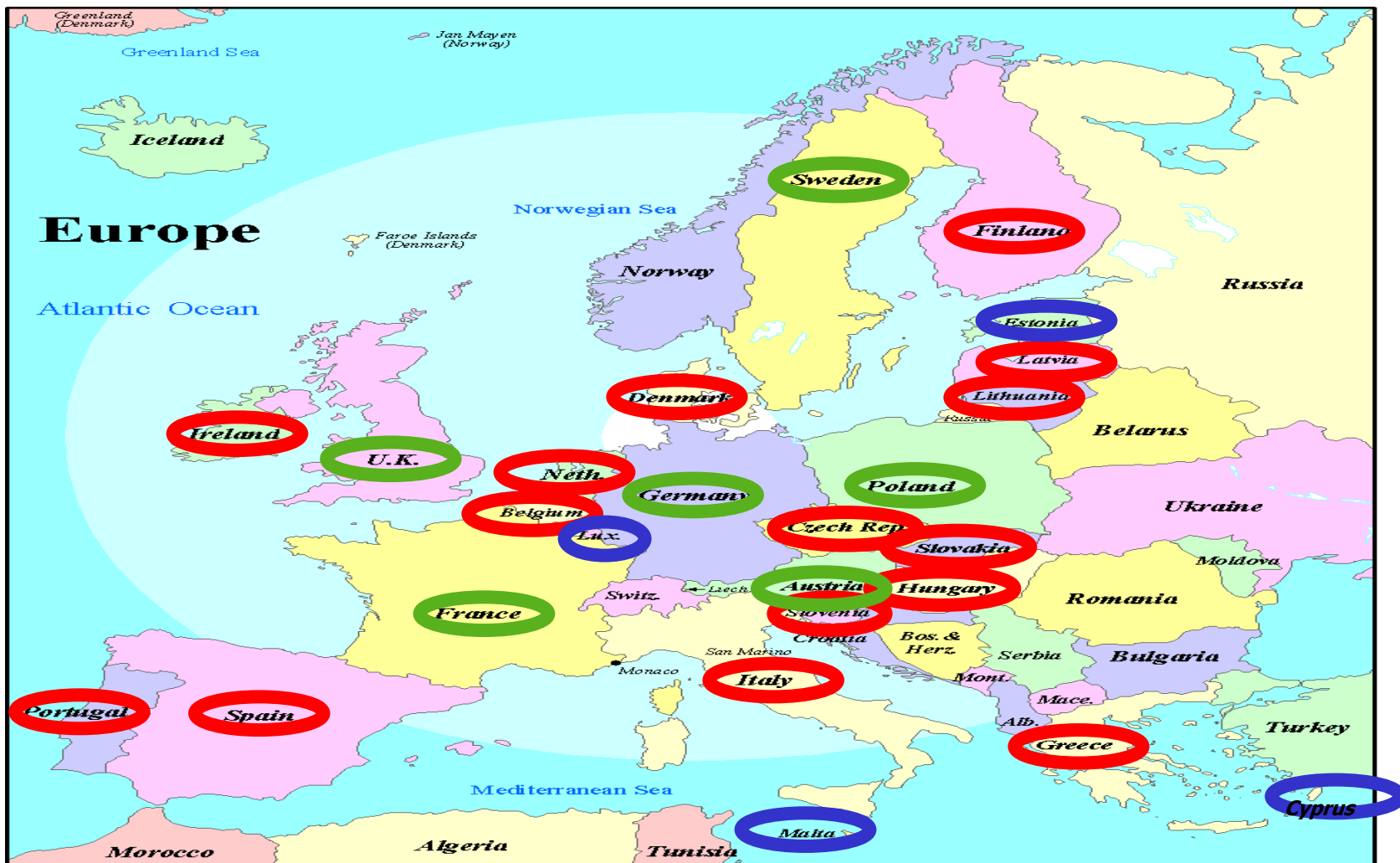
Chart 1: Market price €625/t: 18 producers, 3 out



1996 MAGELLAN GeographixSMSanta Barbara, CA 805 685-3100

■ Beet sugar producers ■ Countries ceasing production ■ Never producers

Chart 2: Market price €475/t: 6 producers, 15 out



1996 MAGELLAN GeographixSMSanta Barbara, CA 805 685-3100

Beet sugar producers

Countries ceasing production

 **Never producers**

Sugar regime reform issues

- Need to find arrangements allowing the maintenance of EU sugar production, so that sugar produced to EU social and environmental standards is available for food manufacturers and consumers.
- Need to allow the 10 new EU members that join on 1 May 2004 to restructure and modernise their sugar industries.(Seven are sugar producers including Poland).
- The concerns of the LDC's and the ACP to maintain a Sugar Regime maximising the value of access to the EU market and the LDC offer of quantitative restrictions on their exports to allow this.
- The need to control taxpayer costs.
- The application of whatever new disciplines are agreed in the WTO Dohar Round.

Discussion on reform

- So far Council discussion has been desultory.
- Some say 'no hurry'! Wait until 2005 when WTO developments will be clearer.
- Others not want to discuss because they fear losing their industry.
- All say the Commission needs to do more work – especially on isoglucose, the environment and impacts for the ACP and LDC's of reforms.
- The Commission is now saying the options are illustrative only, but that the regime must change.
- A new Commission document is due June 2004

Call for maintenance of value of
preferences

The EU as an importer

- **The EU “15” is the world’s second largest importer:** importing some 1.8 mt w.s.e. in 99/00-01/02 equivalent to 14% of consumption, even before the Balkans were given free access. Imports are now up to 2 mt.
- As such the EU imports far more than its critics in the Global Alliance. For example, Australia, Brazil and Thailand do not import sugar and certainly do not open their markets to less advanced developing countries.
- **All the EU’s imports are bought on preferential terms** which means it pays for its imports at the same, or close to the same, level of price as it pays its own producers.
- These preferential imports represent very substantial resource transfers to the beneficiaries, estimated at some €900 million annually.

The EU's sugar trade preferences

- (i) The Sugar Protocol with 19 (about to be 20) sugar producing members of the African, Caribbean and Pacific (ACP) States associated with the EU under the Cotonou Agreement (formerly the Lomé Convention): [1.3 mt w.s.e]. The Protocol's origin was the Commonwealth Sugar Agreement.
- (ii) Special Preferential Sugar (SPS), also from the ACP. [Was some 300 kt , but now dropping as the EBA total rises].
- (iii) The Everything But Arms (EBA) initiative for the world's 49 least developed countries (the LDC's), which will give duty free and quota free access by 2009. [Currently 98 kt (2003/04)].
- (iv) The Stabilisation arrangements for the Balkans which give duty free and quota free access. [Running at an annual rate of nearly 300 kt before Serbia and Montenegro were suspended in 2003].

Preferences

- The LDC's represent a new factor in the discussions.
- In their statement (19/11/03) they said:
 - “The value to LDC's of access to the EU market is access at remunerative prices”
 - “Substantially reduced prices in the EU market would be of little or no benefit to the development intention behind the EBA initiative”
 - “An orderly market structure as envisaged in the options of Status Quo and Fixed Quotas is favoured by the LDC's”
 - “The LDC's would be willing to facilitate the Commission's task of managing the EU sugar market by negotiating, as a group, reasonable quantitative restrictions”
- The ACP States support the LDC's in their stance.

WTO Panel: C sugar and ACP re-exports

WTO Panel I

- Australia, Brazil and Thailand have joined together to bring a case against the EU's exports of "C" sugar and its re-export of a quantity of sugar equivalent to its preferential imports from the ACP countries.
- This case is extremely contentious, both in WTO terms and in terms of its effects for the ACP preferential sugar quota holders.
- The "C" sugar case depends on the application of the recent Canadian Dairy Panel cases where it was determined that exporting at a price below **average total cost of production**, where there is Governmental involvement, is *prima facie* cross subsidising.
- Table 3 shows that many sugar exporters have higher domestic prices than their export prices. It must be assumed that in most cases there are administrative arrangements leading to exports.

**Table 3: Sugar prices in major sugar exporters:
US\$/tonne for 2001/02**

	White sugar		Raw sugar	
	Domestic	World Market export	Preferential export	World Market export
Australia	288	233	436	179
Brazil	191	174	394	151
Colombia	500	209	409	152
Costa Rica	636	206	415	140
El Salvador	509	206	415	140
Fiji	406	252	436	179
Guatemala	381	212	421	146
Guyana	246	237	433	174
India	262	214	418	130
Mexico	514	199	414	136
Nicaragua	484	206	415	140
Pakistan	302	193	na	149
Poland	479	228	na	158
South Africa	379	225	424	173
Sudan	399	193	392	135
Thailand	261	217	406	150
Turkey	655	228	na	158
na = not applicable				
Source: LMC, <u>Protected domestic sugar markets</u> , 2003				

WTO Panel against EU exports II

- The ACP re-export claim is bizarre as the EU specifically did not take a commitment on the re-export of 1.6 mt of sugar in the Uruguay Round. While the “C” sugar claim is applying to the EU’s long-standing (since 1968) “C” sugar arrangements, the recent Canada Dairy rulings.
- The European Commission will “vigorously defend” the EU’s sugar export arrangements at the Panel. The Commission said of the request for a Panel: “...this WTO action could not only destabilise the sugar dependent economies of small ACP countries, but is also a smoke screen to hide the real causes of the current depressed world prices”.
- The 77 ACP countries said the request for a Panel is “a blatant attack by the big players [in sugar trade] on the small and vulnerable, motivated by pure mercantilist considerations”. Table 4 shows the importance of their sugar industries for ACP sugar exporters.

Table 4: Importance of sugar for the ACP sugar exporters

Country	Sugar revenue as a % of:	
	Gross domestic Product	Total agricultural Production
Barbados	1.8	41.4
Belize	9.5	61.9
Congo	N/a	N/a
Cote d'Ivoire	0.9	3.3
Fiji	8.1	93.0
Guyana	15.8	30.0
Jamaica	1.0	13.9
Madagascar	3.9	N/a
Malawi	4.9	N/a
Mauritius	8.0	70.0
St. Kitts	28.0	74.0
Swaziland	24.0	51.0
Tanzania	3.1	5.0
Trinidad & Tobago	0.6	27.8
Zambia	2.3	15.0
Zimbabwe	2.3	17.2
N/a = not available		
ACP London Sugar Group, <u>Trade and Development: aspects of the Doha agenda</u> , memorandum submitted to the House of Commons Select committee on International Development, May 2003		

WTO Panel wider implications

- The EU sugar case is a threat to many WTO members as it turns everything on its head.
- If the complainants win, it will basically mean that things that we thought were permitted are not permitted.
- The rules would be changed in the middle of the game - things that were scheduled and agreed during the Uruguay Round are now called into question, 'reinterpreted' - and disallowed.
- The upshot is that any agricultural support regime that makes it possible, even in the most tangential way, for farmers to cross-subsidize, may be interpreted as a WTO violation.
- That could mean, for example, that the US deficiency payment system is vulnerable.

WTO: Liberalisation v preferences

Preferences and the WTO

- In the revised Harbinson WTO text for the Doha Round (March 2003) there were very significant provisions for the maintenance of preferences.
- Although this detail was not repeated in the Derbez text at Cancun, the G 90 fully expect that the Harbinson provisions for preferences will be carried-over into a new WTO agriculture agreement.

G 20 v. G 90

- Clash between traditional model for trade liberalisation and the demand to maintain the value of preferences.
- Can be caricatured as a clash between the agricultural export members of the G20 and the net food importers of the G 90.
- Emerging consensus recognising need to maintain the value of existing preferences, but the granting of new preferences by advanced developing countries is not yet agreed.

Perverse outcome

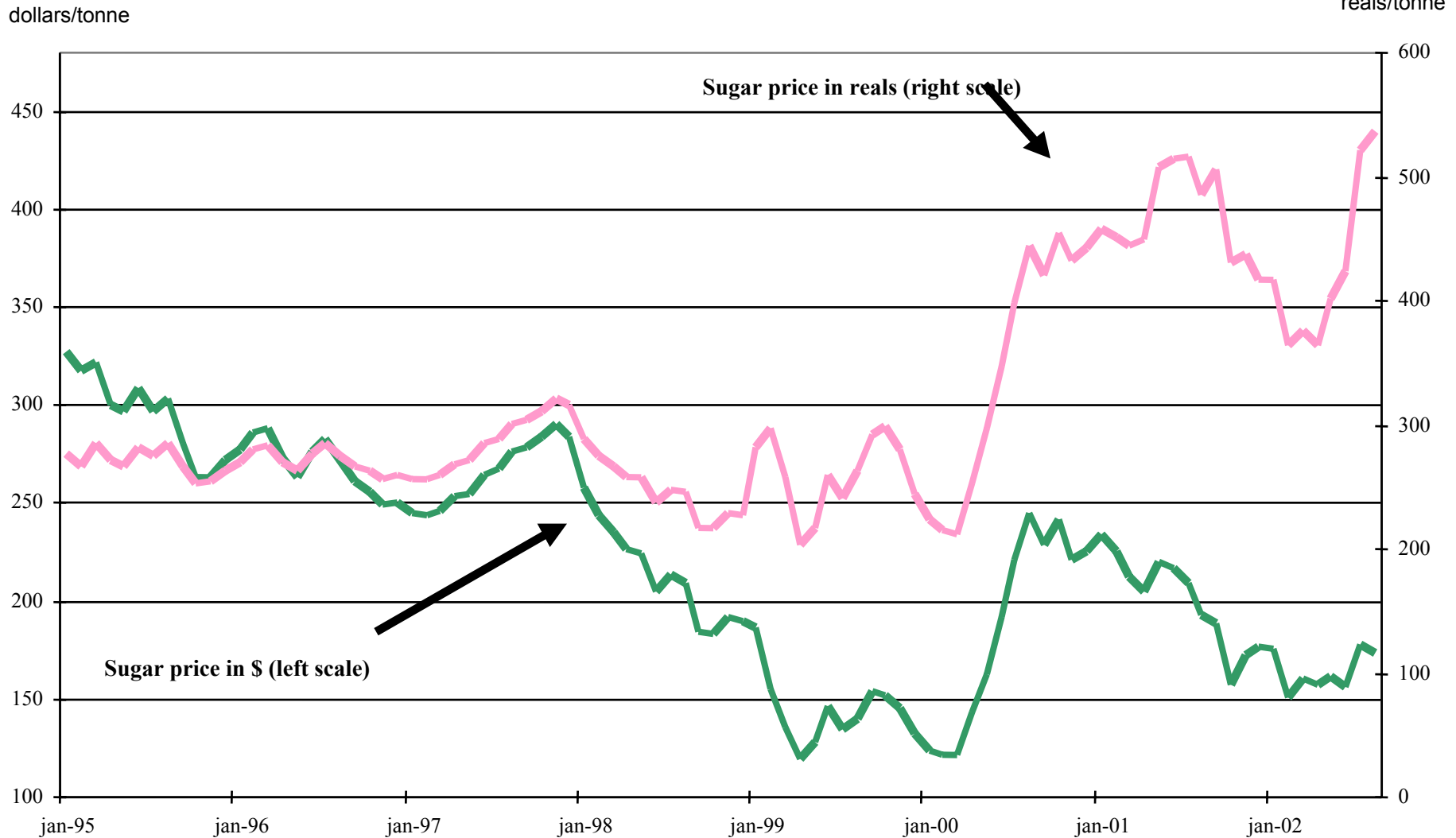
- If full trade liberalization were to be applied for sugar, many developing country producers would be eliminated as they are relatively high cost. The major gainer would be Brazil and a handful of other countries, but to a much lesser extent.
- **This would be a perverse outcome for the WTO Doha Development Round** with its overall aim of helping the developing countries benefit from trade liberalization and was one of the underlying concerns at the WTO Cancun meeting.
- “Unbridled free trade is not the answer” (Chairman of the South African Sugar Association, 24 June 2003).

Exchange rates: need for Safeguard
Clause

Table 5: Currency movements

Effect of Currency Depreciations (1996 to 2003) on a world price of 7 US cents/lb in 1996			
(Exporter currencies versus the US\$)			
Exporter	Percentage Devaluation 1996 to 2003	Equivalent value to exporter in US cents	Percentage Increase
Brazil	-68%	21.71	210%
Colombia	-65%	19.85	184%
South Africa	-43%	12.32	76%
Thailand	-39%	11.48	64%
Australia	-17%	8.44	21%
EU	-10%	7.76	11%

Chart 3: World price for raw sugar in Reals & US Dollars



Impact on world market of the Real's depreciation

- Because of the Real's depreciation the world price in Brazilian domestic currency terms has more than doubled (Table 5). This has not all been eroded by domestic inflation as used to be the case.
- The result is to give Brazil a huge boost to its competitiveness.
- Whereas at the beginning of the 1990's a world price covering Brazil's costs was said to be 10/11 cents/lb.
- Now, because of the devaluations, it is around 5/6 cents/lb.
- Because of Brazil's dominance of the world market the effect of the Real's depreciation has been to lower the 'cap' on the world market so threatening many exporters .

Need for Safeguard Clause

- The currency swings seen for sugar have been much larger than those for cereals which, for example, have affected US/Canada grain flows.
- Very difficult to offset such large currency moves as bulk commodities are unbranded and do not have manufacturers' advertising or market differentiation.
- In WTO terms, must keep the Safeguard Clause for agriculture as the WTO (following GATT precedent) does not take into account currency moves.

Export refunds: reduction won't help the
world market

Chart 4: Brazilian and European exports and world price

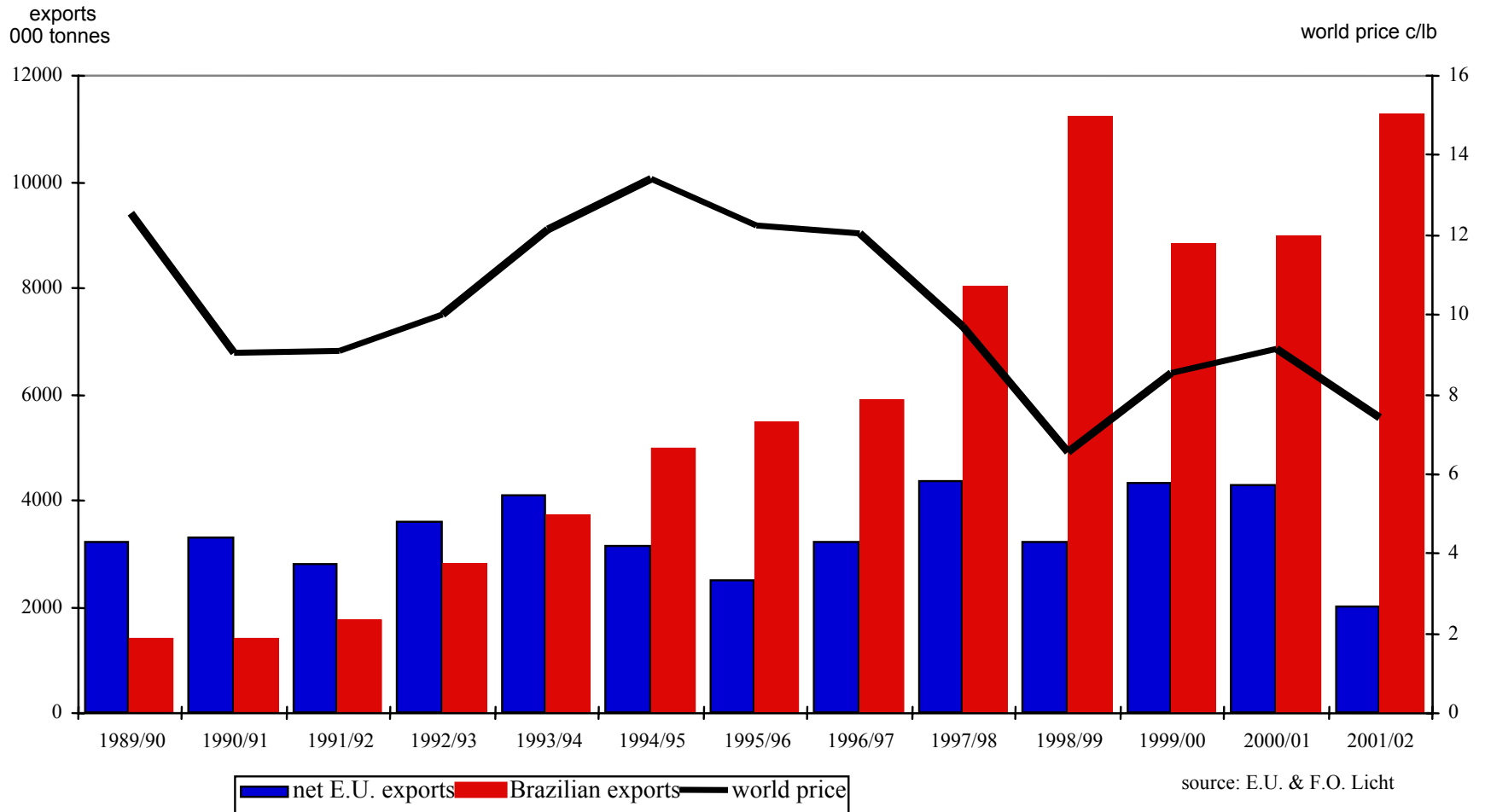


Table 6: World sugar market shares

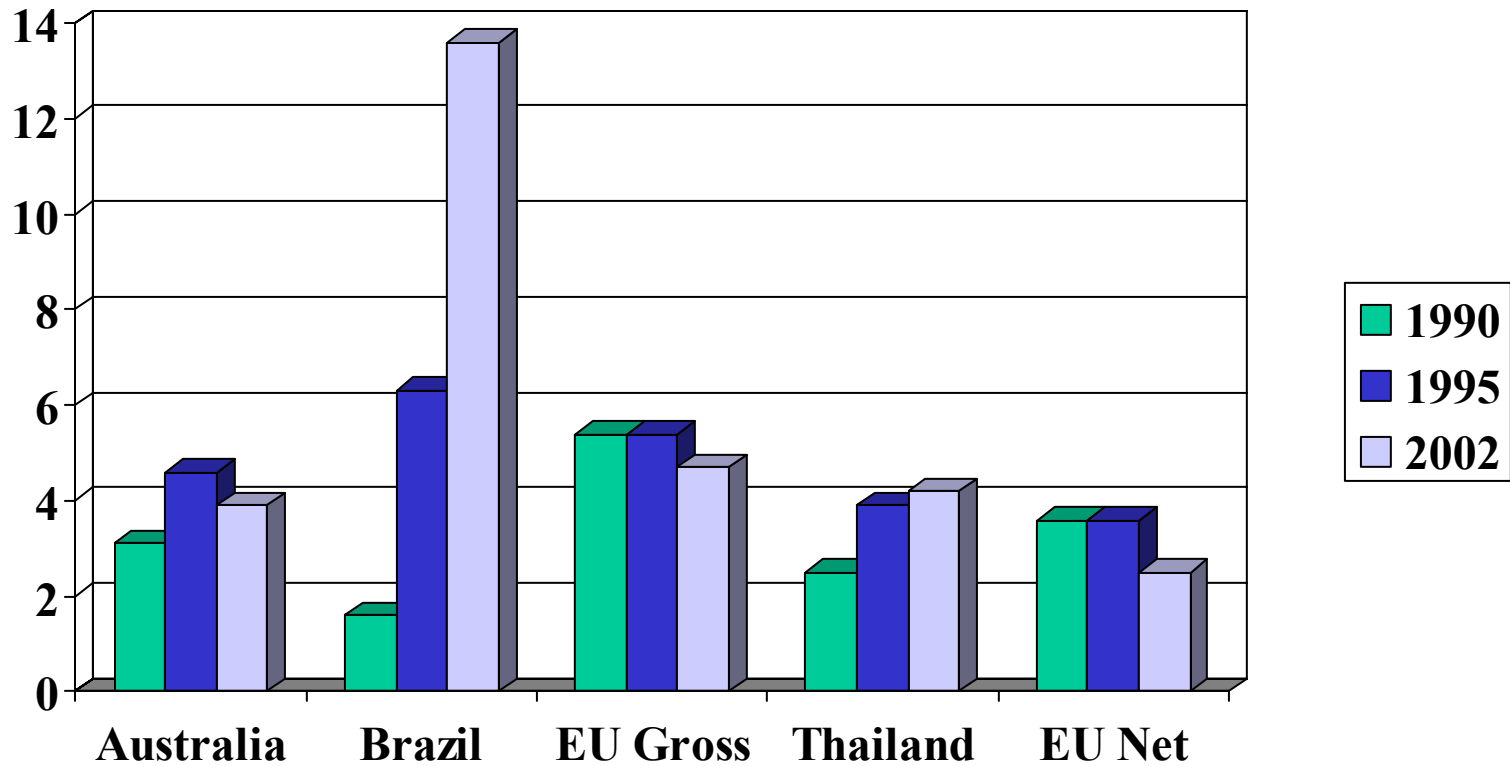
Major exporters' share of the world sugar market (million tonnes raw value)

	1990		1995		2002		Change	
<u>Gross</u>								
Australia	3.1	(10.9%)	4.6	(13.5%)	3.9	(8.9%)	+0.8	+26%
Brazil	1.6	(5.6%)	6.3	(18.5%)	13.9	(31.7%)	+12.3	+669%
EU	5.4	(18.9)	5.4	(15.8%)	4.7	(10.7%)	-0.7	-13%
Thailand	2.5	(8.8%)	3.9	(11.4%)	4.2	(9.6%)	+1.7	+68%
World	28.5	(100%)	34.1	(100%)	43.8	(100%)	+15.3	+54%
<u>Net</u>								
EU	3.6	(15.0%)	3.6	(12.6%)	2.5	(6.4%)	-1.1	-31%
World	24.0	(100%)	28.5	(100%)	38.9	(100%)	14.9	+62%

Note: Figures in brackets represent world market shares. Source: ISO annual 'Sugar Year Books' and monthly 'Statistical Bulletin'.

Chart 5: World sugar market shares

Million Tonnes
Raw value



Irrelevance of export refunds to the collapse of world market

- It is sometimes said that the the EU's use of export refunds has led to the collapse of the world market.
- Charts 4 and 5 and Table 6 show that the collapse of the world market has been caused by Brazil's expansion aided by its currency depreciation and the cross-subsidy from its ethanol programme.
- The EU's gross exports have been roughly stable and, in net terms, have declined at a time when Brazil has expanded its exports ten-fold. The EU world market share has fallen from a fifth to a tenth while Brazil's share has risen from 6% to 30%.
- Furthermore, until very recently the EU was the world's only major white sugar exporter and so was exporting to a different market to most other countries.

Impact on world market of liberalization

- Suggestions that liberalization will lead to higher world prices in anything other than the very short term are wide of the mark.
- The Chairman of the South African Sugar Association on 24 June 2003 quoted an ABARE study that "...world sugar prices would rise by no less than 63% with full sugar reform in the OECD".
- Such statements ignore Brazil's expansion potential (40 million hectares of suitable land that can be developed, of which 5 can be planted up with relatively little investment we are told).
- The OECD (2003, p. 90) in its outlook to 2008 takes a more measured view when it says: "The projected increase in supply in Brazil ...should effectively curb any (persistent) increase in world sugar prices over the medium term".
- If all protection were to be removed by high-income countries, another paper prepared for OECD (2003, p.53) suggests that the gain for white sugar might be 9% while the raw sugar price might decline 1.7%. **Any such gains would fall with the normal annual variation in world sugar prices** and hence be lost in any case.

Many supports not are covered by the
WTO

Measures covered by the WTO

- The traditional tripod of measures covered by agricultural negotiations in the WTO are:
 - domestic support
 - export competition
 - market access
- For sugar, import tariffs vary widely among both developed and developing countries (Table 7), but the use of export subsidies is relatively limited (Table 8).
- But there are a wide range of other support measures (Table 9).

Table 7: Import duties for the world's 10 largest white sugar exporters and importers

	White sugar		Raw sugar	
	Base	Final	Base	Final
Australia[E]	26%	13%	32.5%	16.3%
Brazil [E]	55%	35%	55%	35%
Canada [I]	8%	7%	7.1%	6%
Colombia [E]	130%	117%	130%	117%
Cuba [E]		40%		40%
Egypt [I]	30%	20%	30%	20%
European Union [E,I]	173%	138%	110.7%	88.5%
Guatemala [E]	178%	160%	178%	160%
India [I]		150%		150%
Japan [I]	325%	276%	306.8%	260.7%
Korea [I],	23.7%	18%	23.7%	18%
Malaysia [I]	17%	15%	17%	15%
Mauritius [E]		122%		122%
Nigeria [I]		150%		150%
Sri Lanka [I]	66%	50%	66%	50%
Thailand [E]	104%	94%	104%	94%
Turkey [E]	150%	135%	150%	135%
U.S.A. [E,I]	106%	90%	136.1%	115.7%

Source: ISO (1999, pp.21/22) Notes: EU/US figures are for out of quota imports. Australia has waived all sugar import duties. I=importer: E=exporter

Table 8: WTO export subsidy volume commitments (1,000 tonnes)

	<u>Base period</u>	<u>2004</u>	<u>Reduction</u>
Brazil	1,740	1,500	14%
Colombia	260	224	14%
EU “15”	1,612	1,273	21%
Hungary	166	32	81%
Mexico	1,530	1,260	18%
Poland	172	104	40%
Romania	176	151	14%
Slovakia	5	4	20%
South Africa	889	702	21%
Total	6,550	5,250	20%

Source: ISO (1999), p. 24

Table 9: Summary of policy measures in selected countries, 2000

	Import tariffs	Non-tariff barriers (1)	Domestic market sharing quotas	Single channel Marketing ⁽²⁾		Government institutional price setting
				Domestic	Export	
Australia	X	X	✓	✓	✓	X
Brazil	✓	X	X	X	X	X
Canada	✓	X	X	X	X	X
China	✓	✓	X	X	X	X
Colombia	✓	X	✓	X	✓	✓
Cuba	✓	✓	X	✓	✓	✓
EU	✓	X	✓	X	X	✓
India	✓	✓	X	X	X	✓
Japan	✓	X	X	✓	N/A	✓
Malawi	✓	X	X	✓	✓	X
Mexico	✓	X	X	X	X	X
Russia	✓	X	X	X	N/A	X
South Africa	✓	X	✓	✓	✓	✓
Swaziland	✓	X	✓	✓	✓	✓
Thailand	✓	X	✓	X	✓	✓
US	✓	X	X	X	X	✓
Zambia	✓	X	X	✓	✓	X
Zimbabwe	✓	X	✓	✓	✓	✓

Source: LMC International (2000)

Notes: (1) These include measures such as the retention of import agencies and the requirement for import licenses.

(2) Single channel marketing also applies to countries where only one sugar company operates.

N/A = not applicable and applies to countries that do not export.

Measures not covered by WTO

- It is clear that although many measures are covered by the existing support disciplines in the WTO, many are not.
- Thus single desk selling (Australia, Colombia, Cuba and S. Africa) may, or may not, be covered in the Doha Round.
- But there appears to be no move to control support through debt financing (Australia, Brazil, Mexico, S. Africa and Thailand), ethanol cross-subsidies (Brazil, Colombia and Thailand) or input subsidies (India, Mexico, S. Africa, Thailand, Turkey). Yet these can, and do, have a major impact on competitiveness.